



Land contracts can help those who lack good credit to have the chance to own real estate. A land contract can either help or hurt you. As in any contract, the devil is in the details.

If you plan to go down this road, please study this Tip carefully, exercise caution, and seek sound legal advice from an attorney you trust.

Land Contracts

People typically enter into land contracts when they cannot get a favorable mortgage to buy the property outright. Lenders are unwilling to lend to people with bad credit, no credit history, or to non-citizens. Before you enter into a land contract, you must establish a financial plan. This plan should focus on “fixing” whatever is preventing you from getting a loan. If poor credit is the problem, please see “How to Improve Your Credit Score.” Good performance on a land contract and other financial transactions can convince lenders to extend credit once you prove yourself credit-worthy over time. Over time, a non-citizen may also become a citizen.

A land contract may last just a few months or up to five years. It is critical that the extent of the land contract matches up with a realistic, conservative estimate of the time it will take to enable the buyer to fix the problems and obtain permanent financing. **Many individuals with land contracts have lost thousands of dollars in down payments and fees simply because they could not obtain permanent financing within the time allotted by the contract.**

Nearly as important as the term of the land contract is the interest rate and/or fees. Make sure you are being charged a reasonable rate. The interest rate of a land contract is typically one to two points above the prime rate because of the risk involved for the lender.

Chapter 5313 of the Ohio Revised Code spells out the legal requirements of a land contract. You may obtain a copy by visiting your local library or it can be found on-line at:

<http://onlinedocs.andersonpublishing.com/oh/lpExt.dll?f=templates&fn=titlepage.htm> For your convenience we have summarized the legal requirements on the back of this Tip.

Requirements of Ohio Law on Land Contracts

A land contract involves property with a dwelling on it. The seller agrees to transfer title to the property once the buyer pays the purchase price in installments. In the meantime, the buyer has the use of the property, but the seller keeps title to it as security in case the buyer does not make the agreed payments. The buyer and seller each shall receive a copy of the contract, which must have at least the following provisions:

- ✓ Full names and current mailing addresses of all parties to the contract.
- ✓ The date when each party signed the contract.
- ✓ A legal description of the property approved by the county engineer.
- ✓ The purchase price for the property, amount of the down payment, and all charges or fees for services separate from the purchase price.

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- ✓ The interest rate on the unpaid balance and how the rate is computed.
- ✓ A list of any encumbrances or liens against the property.
- ✓ A statement requiring the seller to deliver the deed to the property (transferring ownership) once the contract is completed and the payments have been made.
- ✓ A provision that the seller show evidence of title to prove ownership of the property.
- ✓ A provision that if the seller defaults on any mortgage on the property the buyer can pay on that mortgage and receive credit on the land installment contract.
- ✓ A provision requiring the seller to record a copy of the contract with the County Recorder and deliver a copy to the County Auditor within 20 days of execution.
- ✓ A requirement that the buyer pay all taxes, assessments, and other charges against the property during the term of the contract unless the parties agree otherwise.
- ✓ A statement of any pending order of any public agency against the property.

At least once a year, or on demand of the buyer but no more than twice a year, the seller must furnish a statement showing the current status of the payment schedule, including the amount credited to principal and interest and the balance due. The buyer has the right to go to court to enforce any of these provisions governing land contracts.

When a buyer defaults by missing payments, the seller must wait 30 days to enforce forfeiture of the buyer's rights under the contract. The seller must serve written notice on the buyer, identifying the property and the contract, specifying terms not met, and stating that the contract will be forfeited unless the buyer satisfies the terms within ten days. Until that happens, the buyer can restore the contract by making the payments and satisfying the terms. If the buyer fails to do so, the seller may evict the buyer (a fairly quick process).

EXCEPTION: If the buyer has made the proper payments under the contract for five years or more, or has paid a total amount of at least 20% of the purchase price (including the down payment), the seller may recover possession of the property only by foreclosure and judicial sale, which takes much longer than an eviction action.